

BEFORE THE TENNESSEE STATE BOARD OF EQUALIZATION

IN RE: Lexington Knoxville LLC)
Parcel ID #103EA-006) Knox County
Commercial Property)
Tax Year 2005)

INITIAL DECISION AND ORDER

Statement of the Case

The subject property is presently valued as follows:

<u>LAND VALUE</u>	<u>IMPROVEMENT VALUE</u>	<u>TOTAL VALUE</u>	<u>ASSESSMENT</u>
\$876,700	\$7,399,800	\$8,276,500	\$3,310,600

An appeal has been filed on behalf of the property owner with the State Board of Equalization. The undersigned administrative judge conducted a hearing in this matter on February 1, 2006 in Knoxville, Tennessee. In attendance at the hearing were registered agent Shane Moncrief and Knox County Property Assessor's representative Ralph E. Watson.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Subject property consists of a 7.97 acre tract improved with a one story office building containing 59,748 square feet constructed in 2002. Subject property is located at 2401 Cherahala Drive in Knoxville, Tennessee and utilized by a single lessee, Caremark Rx, as a call center. Subject property was originally purchased on August 29, 2002 for \$8,060,000.

The taxpayer contended that subject property should be valued at \$7,238,000. In support of this position, the income and cost approaches were introduced into evidence. The taxpayer maintained that the income and cost approaches support value indications of \$7,238,000 and \$6,802,485 respectively. The taxpayer placed primary weight on the income approach.

The taxpayer asserted that the original sale of subject property for \$8,060,000 in 2002 does not provide a good indication of value on the relevant assessment date of January 1, 2005 for two reasons. First, the transaction involved a REIT that specialized in acquiring single tenant net leases. Thus, the buyer focused on the income stream generated by the existing lease and the creditworthiness of the tenant rather than the intrinsic value of the real property. Second, the taxpayer introduced information concerning a 57,833 square foot office building located at 2200 Sunderland Avenue formerly utilized as a call center currently being offered for lease at \$12.90 per square foot.

The assessor contended that subject property should be valued at \$8,276,500. In support of this position, the property record card was introduced into evidence.

The basis of valuation as stated in Tennessee Code Annotated Section 67-5-601(a) is that "[t]he value of all property shall be ascertained from the evidence of its sound, intrinsic and immediate value, for purposes of sale between a willing seller and a willing buyer without consideration of speculative values . . ."

General appraisal principles require that the market, cost and income approaches to value be used whenever possible. Appraisal Institute, *The Appraisal of Real Estate* at 50 and 62. (12th ed. 2001). However, certain approaches to value may be more meaningful than others with respect to a specific type of property and such is noted in the correlation of value indicators to determine the final value estimate. The value indicators must be judged in three categories: (1) the amount and reliability of the data collected in each approach; (2) the inherent strengths and weaknesses of each approach; and (3) the relevance of each approach to the subject of the appraisal. *Id.* at 597-603.

The value to be determined in the present case is market value. A generally accepted definition of market value for ad valorem tax purposes is that it is the most probable price expressed in terms of money that a property would bring if exposed for sale in the open market in an arm's length transaction between a willing seller and a willing buyer, both of whom are knowledgeable concerning all the uses to which it is adapted and for which it is capable of being used. *Id.* at 21-22.

In view of the definition of market value, the income-producing nature of the subject property and the age of subject property, generally accepted appraising principles would indicate that the market and income approaches have greater relevance and should normally be given greater weight than the cost approach in the correlation of value indicators.

After having reviewed all the evidence in the case, the administrative judge finds that the subject property should be valued at \$7,618,700.

The administrative judge finds that the taxpayer's income approach constitutes the best evidence of value and should initially receive greatest weight. However, the administrative judge finds that the preponderance of the evidence supports adoption of a 9.5% capitalization rate rather than the 10% rate utilized by the taxpayer's representative.

The administrative judge finds that for all practical purposes the taxpayer has assumed the current lease reflects a market rental rate. The administrative judge finds that the taxpayer's proposed capitalization rate of 10% was based upon a capitalization rate study performed in conjunction with the 2005 *Shelby* County reappraisal program. The administrative judge finds it reasonable to assume absent additional evidence that the sample considered in the study consisted primarily, if not exclusively, of buildings occupied

by multiple tenants. The administrative judge finds that subject property almost certainly has less risk than the properties surveyed because of the creditworthiness of its single tenant. Indeed, the taxpayer essentially claimed that the existing lease was the reason subject property sold for more on a leased fee basis than it would have on a fee simple basis.

In concluding subject property should be valued at \$7,618,700 the administrative judge has not ignored the 2002 sale of subject property. However, the administrative judge finds that one sale does not necessarily establish market value. As observed by the Arkansas Supreme Court in *Tuthill v. Arkansas County Equalization Board*, 797, S. W. 2d 439, 441 (Ark. 1990);

Certainly, the current purchase price is an important criterion of market value, but it alone does not conclusively determine the market value. An unwary purchaser might pay more than market value for a piece of property, or a real bargain hunter might purchase a piece of property solely because he is getting it for less than market value, and one such isolated sale does not establish market value.

The administrative judge finds that a value of \$7,618,700 appears reasonable as of January 1, 2005 after correlating the indications of value from all three approaches to value.

ORDER

It is therefore ORDERED that the following value and assessment be adopted for tax year 2005:

<u>LAND VALUE</u>	<u>IMPROVEMENT VALUE</u>	<u>TOTAL VALUE</u>	<u>ASSESSMENT</u>
\$876,700	\$6,742,000	\$7,618,700	\$3,047,480

It is FURTHER ORDERED that any applicable hearing costs be assessed pursuant to Tenn. Code Ann. § 67-5-1501(d) and State Board of Equalization Rule 0600-1-.17.

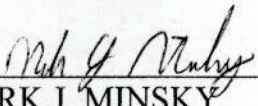
Pursuant to the Uniform Administrative Procedures Act, Tenn. Code Ann. §§ 4-5-301—325, Tenn. Code Ann. § 67-5-1501, and the Rules of Contested Case Procedure of the State Board of Equalization, the parties are advised of the following remedies:

1. A party may appeal this decision and order to the Assessment Appeals Commission pursuant to Tenn. Code Ann. § 67-5-1501 and Rule 0600-1-.12 of the Contested Case Procedures of the State Board of Equalization. Tennessee Code Annotated § 67-5-1501(c) provides that an appeal “**must be filed within thirty (30) days from the date the initial decision is sent.**” Rule 0600-1-.12 of the Contested Case Procedures of the State Board of Equalization provides that the appeal be filed with the Executive Secretary of the State Board and that the appeal “**identify the allegedly erroneous finding(s) of fact and/or conclusion(s) of law in the initial order**”; or

2. A party may petition for reconsideration of this decision and order pursuant to Tenn. Code Ann. § 4-5-317 within fifteen (15) days of the entry of the order. The petition for reconsideration must state the specific grounds upon which relief is requested. The filing of a petition for reconsideration is not a prerequisite for seeking administrative or judicial review; or
3. A party may petition for a stay of effectiveness of this decision and order pursuant to Tenn. Code Ann. § 4-5-316 within seven (7) days of the entry of the order.

This order does not become final until an official certificate is issued by the Assessment Appeals Commission. Official certificates are normally issued seventy-five (75) days after the entry of the initial decision and order if no party has appealed.

ENTERED this 10th day of February, 2006.



MARK J. MINSKY
ADMINISTRATIVE JUDGE
TENNESSEE DEPARTMENT OF STATE
ADMINISTRATIVE PROCEDURES DIVISION

c: Mr. Shane Moncrief
John R. Whitehead, Assessor of Property